UNITED
NATIONS

DP

Executive Board of
the United Nations
Development Programme
and of the United Nations
Population Fund

Distr.
GENERAL

DP/1999/33
27 August 1999

ORIGINAL: ENGLISH

Third regular session
13-17 September 1999, New York
Item 3 of the provisional agenda

UNDP: FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

BUDGET ESTIMATES FOR THE BIENNIUM 2000-2001

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with regulation 9.5 of the Financial Regulations of the United Nations Development Programme (UNDP), the Advisory Committee on Administrative and Budgetary Questions has considered the budget estimates of UNDP for the biennium 2000-2001 as contained in an advance copy of document DP/1999/31. During its consideration of this item, the Advisory Committee exchanged views with senior officials of the Programme, who provided additional information.

2. The Advisory Committee notes that the budget estimates for the biennium 2000-2001 have been presented in the format endorsed by the Executive Board in its decision 97/6 on the harmonization of presentation of budgets, and subsequent refinements to the format reviewed by the Advisory Committee in January 1999. The Committee also notes that the biennial support budget is presented as an integral part of the multi-year funding framework (MYFF), in line with Executive Board decision 98/23. In the same decision, the Executive Board adopted an annual funding target of $1,100 million for contributions to UNDP regular (core) resources with a view to assuring a more predictable funding base for the organization.

3. As shown in table 1 of the budget document (DP/1999/31), the proposed estimates for the biennium 2000-2001 amount to $585.4 million gross, reflecting a decrease of $5.2 million compared to the 1998-1999 approved gross budget estimates. In net terms, the proposed amount of $518.2 million represents a marginal decrease of $0.3 million when compared to the budget approved by the Executive Board for 1998-1999, reflecting a zero nominal growth in net terms while absorbing relevant cost increases. The Committee also notes, as shown in table 2, that the Administrator's proposal for 2000-2001 reflects a volume

decrease of $24.5 million, partially offset by a total net cost increase of $19.2 million.

4. Of the total amount of volume reductions, $16.8 million relates to real volume reductions principally at the headquarters level, while $7.7 million relates to the shift of the allocation of development support services from the biennial support budget to the programme. Furthermore, the net cost increase comprises a downward adjustment of $23.5 million resulting from the general strengthening of the United States dollar, a net decrease of $4.2 million resulting from various mandatory post costs, and the full impact of inflation estimated at $46.9 million, or 4.3 per cent per year. The Committee notes that the inflation rate for the biennium 2000-2001 combines 2.0 per cent at headquarters and 5.3 per cent for the field per annum.

5. The Committee also notes that the budget proposals include a net reduction of $5 million in estimated income to the budget. This reduction is the result of a decrease in government contributions to local office costs ($6 million) and an increase in support costs to the United Nations Volunteers (UNV) programme ($1 million), explained in paragraphs 20 and 21 below, respectively.

6. Paragraph 4 and table 1 of the budget document indicate that the target for contributions to UNDP regular or core resources was set at $1,700 million for 2000-2001. Non-regular or other resources are projected at $3,200 million. The Committee was informed, upon inquiry, that the latter includes $2,500 million in cost-sharing activities and $720 million related to trust funds. With regard to the projected $1,700 million regular or core resources, the Committee was informed that an income level of $800 million for the year 2000, and of $900 million for 2001, had been projected at the time of the preparation of the budget proposal (DP/1999/31).

7. Table 1 indicates core resources of $1,600 million for 1998-1999. However, the interim financial statements for UNDP indicate an amount of $747.7 million for the 12 months ending 31 December 1998, and the Committee was further informed during its hearings that, in view of announced reductions by one major donor for 1999 and the strengthening of the dollar, the current projection for 1999 had been reduced from $750 million to $712 million.

8. In the light of these events, and the possibility of further reductions by two major donors for the year 2000, the Committee is aware that the income scenario upon which the budget proposal for 2000-2001 was made may be somewhat unrealistic. The Committee understands that the new Administrator is to embark on an active resource-mobilization strategy based on the first MYFF submitted to the Board at its current session (see DP/1999/30) as well as his review of UNDP's challenges and opportunities. Moreover, a Transition Team has been established, which, as explained by the Administrator, will select strategic management objectives and targets, identifying and removing impediments to progress, with the aim of more aggressively delivering the goals UNDP has set for itself. The Committee notes that the work is to be closely tied to the analyses and benchmarking undertaken through the preparation of the MYFF, and that its work is to be a time-bound exercise of 120 days, which started in July and is to be finalized in October 1999.

9. The Advisory Committee recalls that serious core resource income uncertainty also affected the preparation of the estimates for 1998-1999. The Administrator of UNDP, at the time, indicated that further budget reductions would not be ruled out if core funding of the programme did not improve. As indicated in paragraph 10 of the proposed budget for 2000-2001, given "current resource levels, the Administrator recognizes that fiscal prudence is required to maintain the biennial support budget at realistic levels in order to maximize possible resources for programmes". The necessary reductions to achieve the proposal of a zero nominal growth budget in net terms were the result of a strategy, summarized in paragraph 11 of the report, to ensure that critical capacities were safeguarded in the context of the budget for 2000-2001.

10. Also as indicated in paragraph 11 of the budget document, reductions are concentrated at the headquarters level in order to safeguard UNDP's capacity at the country level. In addition, programme-related activities, currently covered by the biennial support budget, have been rationalized, including a shift of the allocation for development support services from the budget to the programme.

11. The strategy proposed by the Administrator also incorporates some flexibility in the use of budgetary resources, in particular, with regard to staff at the country level and certain transitional measures which, as indicated in paragraph 17, the Administrator recognizes as "crucial in enabling the organization to adapt to the rapidly changing environment".

12. The total number of posts proposed shows a net reduction of 26, from 4,054 in 1998-1999 to 4,028 in 2000-2001. As indicated in paragraph 35 and table 5, the net reduction includes a decrease of 15 international Professional posts and 23 local posts at headquarters. The reductions include a redeployment of 1 international Professional post from headquarters to the country level, and an increase of 12 local posts at the country level.

13. In paragraph 99 of his report, the Administrator proposes to maintain the same allocation used for 1998-1999 for separations, adjusted for inflation, in the amount of $7.7 million. The Committee was informed that the allocation for separations for 1998-1999, amounting to $7,931,700, would cover the separations of an estimated number of 17 international Professional staff and 181 local staff (at headquarters and country offices).

14. At the same time, however, the Committee also notes that in paragraph 106 of the proposed budget, the Administrator proposes, as an integral part of his strategy, to establish two reserves. The first one, in view of the staff reductions and changes relating to the 2000-2001 budget proposals, would amount to $7 million. As indicated in paragraph 107, of this total amount designated as a separation reserve, $4.8 million would cover separations related to reductions at headquarters and $2.2 million would cover those of country staff, on the basis of redistribution of posts between regions. It is not related to the allocation mentioned in paragraph 13 above. The estimates are made based on the separation of 15 international Professional staff and 25 local support staff at headquarters and 21 national officers and 75 local support staff at the country level.

15. The second proposed reserve, in the amount of $6 million, would allow the Administrator as indicated in paragraph 108, to cover transitionary measures crucial to the Organization in temporarily strengthening certain capacities in order to address priority needs. A first category of transitionary measures relates to activities critical to UNDP, difficult to fund at present in view of reduced budgetary resources. They would include: costs relating to temporary staff and consultants, general operating expenses, piloting new approaches, and exploiting to the maximum extent possible the potential of information and web-based technologies ($2.5 million); costs relating to consultants, mobilization drives or other communications needs for specific targeted initiatives related to the communication and resource mobilization strategy of the organization ($1 million); and $1 million to cover emergency measures at the country level in view of possible unforeseen implications relating to Y2K.

16. The second category of transitionary measures relates to the provision of $1.5 million for the purpose of supporting the Administrator in priority areas, which he considers crucial in delivering, demonstrating and communicating results. Upon inquiry, the Committee was further informed that this provision would mainly be used towards the priority goals that the Transition Team is expected to develop, with a view to enabling the organization to attain a sustainable resource base.

17. The Advisory Committee was not convinced that there is enough justification for providing the specific allocation for the first category of transitionary measures, indicated in paragraph 109 of the proposed budget and mentioned in paragraph 15 above. The Committee is of the view that these amounts could be covered from resources already allocated in the budget for those needs, such as the one related to information technology and systems, or those allocated to the Bureau for Resources and External Affairs.

18. Table 3 of the proposed budget document sets out the use of resources for the biennium 2000-2001. The Advisory Committee recalls that it addressed the issue of the compilation of data related to country office support to the operational activities of the United Nations system, which in the proposed budget for 2000-2001 accounts for 17 per cent of total budget resources. The Committee, in paragraph 18 of its report at the third regular session of 1997 (DP/1997/31), indicated the need to review further the methodology for compiling and analysing such data, recommending that information be collected concerning all elements of support currently reimbursed by the agencies and other entities, and that UNDP consider the possibility of expanding reimbursement to reduce the appropriation for support to operational activities.

19. In this regard, the Advisory Committee notes that in paragraph 90 of the proposed budget, the Administrator indicates that he recognizes the need to review further these activities to determine which type of regular support services should continue to be provided from UNDP regular capacity, to collect information on the experience with such reimbursement before it can estimate the potential volume reduction of the appropriation for support, and that he had initiated discussions with other agencies to address and streamline reimbursement of such additional services provided to them. The Committee encourages this exercise.

20. As provided in the standard basic agreements governing UNDP operations in programme countries, countries hosting UNDP country offices contribute towards part of the local costs of those offices – also known as GLOC, or government contributions towards local office costs. This is addressed in paragraphs 48 to 55 of the budget report. In this regard, the Committee recalls that the 1998-1999 budget contained an additional mechanism to cover GLOC shortfalls, providing the Administrator authority to establish a linkage with the programme resources allocated to a host country that did not meet its obligations in full, allowing a downward adjustment of the allocation of programme resources to the country failing to meet its GLOC obligations. Based on the 1998 contributions received (see DP/1999/31, table 10), and taking into account the difficulties in applying the new mechanism for the reasons indicated in paragraph 54 of the budget, the Administrator is proposing to decrease expected income from low-income countries by $6 million and, to the extent that middle-income countries show a substantial GLOC deficit for 1998 and/or 1999, to withhold part of the resources for 2000-2001, respectively, for those countries.

21. In the area of UNDP support to operational activities, the Administrator, in the context of the 1998-1999 budget, indicated in paragraph 96 of his report, his plans to discuss with United Nations specialized agencies the reimbursement of the direct cost of United Nations Volunteers (UNVs) financed through the programmes of those agencies – approximately 10 per cent of the direct cost of a Volunteer as overhead. He indicated that these discussions were successful and that, on that basis, an increase of $1 million in the estimated income for UNV is taken into account in the overall estimates of income for 2000-2001.

22. The Committee also recalls that the United Nations House programme was launched as a new initiative in the context of the reforms announced by the Secretary-General in March 1997, with the aim of establishing common premises and common services arrangements at the country-office level. This would save administrative costs to the benefit of the programme countries and encourage coordination, cooperation and consultation. In accordance with the plan endorsed by the four organizations participating in the establishment of the United Nations Houses – UNDP, the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA) and the World Food Programme (WFP) – as indicated in paragraph 22 of DP/1999/CRP.5, and the slower funding pace of a minimum of 10 countries per year, the Administrator of UNDP estimates at $0.5 million for the biennium 2000-2001 its share of the evaluation, planning and management costs. As indicated in paragraph 113 of the budget, the established formula for sharing those costs among the four organizations entails one third from UNDP, one third from UNICEF, one sixth from UNFPA, and one sixth from WFP.

23. As for the relocation costs, each organization funds its specific share of the costs in proportion to the size of its presence in each of the targeted countries. The Administrator is proposing to establish a capital reserve of $3.8 million from UNDP general resources, taking into account that this activity will be spread out over a number of years.

24. In paragraphs 114 to 120 of the proposed budget document, the Administrator addresses the status of the review undertaken since September 1998 on cost-recovery practices, the legal and regulatory framework and experience, with a

view towards assessing the existing framework, its implementation and making recommendations to UNDP's senior management on how to expand the framework, if necessary, and/or improve its implementation. The Committee notes that the review covers support services to other organizations in the United Nations system, support services for other UNDP resource activities, and support services for national execution and the implementation of UNDP projects within the parameters established by the Board. The Committee was further informed that the general mechanism in place for cost-recovery is the direct charge of a flat fee, which normally ranges between 3 to 5 per cent – its level based on the incremental costs of carrying out those activities or services.

25. The Committee notes that certain sub-tasks of the review are still ongoing. The Committee was informed that, once finalized, a copy of the recommendations of the working group will be provided to the Committee. The Committee reiterates the view it had expressed in paragraph 8 of its report to the Board (DP/1997/31), regarding the need to pay particular attention to ensuring that a fair share of support is charged to non-regular or other resources, in view of the steady decrease in regular or core resources.

26. Details regarding information technology and systems are provided in paragraphs 100 to 102 of the budget document. Table 11 of the document shows that the total cost increases from $24,620,200 to $27,101,700. Annex II of the document provides detailed information on the key systems projects the organization is focusing on during 2000-2001, along with costs and time-frame.

27. The Advisory Committee recalls that in the context of its consideration of the report of the Board of Auditors for the biennium 1996-1997 (see A/53/5/Add.1), the Advisory Committee indicated, on the basis of the comments made by the Board regarding UNDP, that "contract management for a number of the information systems and the change management programme was weak and may have led to more payments than were warranted". The Committee further recommended that a special investigation be carried out on the appropriateness of the payments made to contractors for the tasks referred to in paragraphs 91 to 117 of the report of the Board of Auditors and that the results of the investigation be submitted by the Administrator to the Executive Board, through the Advisory Committee, in the context of the budget estimates for the biennium 2000-2001 (A/53/513, para. 58).

28. The Advisory Committee had before it the report containing the special audits of UNDP information systems and change management expenditures. With regard to the special audit on change management expenditures, the Committee was assured by UNDP that there were lessons to be learned, most importantly, to document properly the reasons for not choosing competitive bidding, and even in a special case such as that of higher-level process consulting, to spell out specific expectations and deliverables.

29. With regard to the special audit of UNDP information systems, the Advisory Committee was provided with comments by UNDP on the key issues raised by the audit consultants (see annex below).

30. The Committee recalls that UNDP has been the subject of intense reorganization and downsizing since 1992. As indicated in paragraph 27 of the

proposed budget, total real volume reductions for the period from 1992-1997 amount to $105.6 million. Taking into account reductions of $5 million effected for 1998-1999 and reductions of $16.8 million proposed under the 2000-2001 budget, UNDP will have implemented $127.4 million in total reductions during the period 1992-2001.

31. The Administrator indicates in paragraph 28 of his report that "such continued reductions have already begun to have an impact on the capacity of the organization", yet he is committed to identifying cost-savings in carrying out the activities of UNDP. Nevertheless, "continued reductions will have severe implications for the organization" and furthermore, as indicated to the Committee, any further reduction, beyond incremental efficiency gains, which may be necessitated by weakened income performance, will have to be dealt with by redefining UNDP's mandate.

32. In his statement of 1 July 1999, the Administrator said the following: "I propose that we take the Executive Board a bold challenge next spring. We will bring them a compelling and credible UNDP that has defined its driving goals and benchmarks, concentrated its business vision, stepped up its efficiency, accelerated its results-orientation and strengthened its management team. And in defining the business nothing will be sacrosanct. We will be ruthless in assigning resources behind essential priorities and eliminating activities that are not relevant".

33. Taking the above into account and in view of the uncertainties concerning income projections indicated in paragraphs 7 and 8 above, the Committee recommends that the Executive Board authorize the biennial support budget for 2000-2001, as proposed by the Administrator. However, such approval should be on the understanding that a revised budget would be submitted to the Board, through the Advisory Committee, after the Administrator and his Transition Team have completed the review of the management processes of UNDP.

34. Moreover, the Committee further recommends that the review undertaken take into account such matters as charging other resources a fair share for the administration, management and other services provided by UNDP to activities funded by other resources. A refocusing of UNDP's mandate should include a thorough examination of tasks and functions assumed by the programme in recent years to determine whether they should be undertaken by other agencies of the United Nations system, consistent with the policies and legislative directives of the Executive Board. A review of the centrally budgeted resources (see DP/1991/31, para. 47) could determine whether some of the functions, such as the regional functions, could be carried out in the context of the country offices so as to eliminate potential duplication.

35. Priority in establishing accurate recovery procedures should concentrate on increasing income from sources other than from members of the United Nations common system. Resources flowing into the common system have either stagnated or are on a downward trend. If such a trend were to continue, it would not be cost-effective to establish an elaborate recovery mechanism to effect recovery from a shrinking resource base.

36. If little or no improvement is made in core income, the Committee is of the opinion that a hard look must be taken at how to curtail programmes and activities. Otherwise, there is a limit beyond which further reductions of the costs of the administration and management begin to affect the capacity to deliver mandates entrusted to the Administrator.

37. The Committee also feels that the establishment of new offices or retention of existing ones must be based on assured and attainable income to maintain them, be it from GLOC, UNDP resources or any combination thereof. Moreover, further streamlining and simplification of organizational structures at headquarters could be envisaged.

Annex

Comments by UNDP on the key issues raised by the audit consultants on UNDP information systems

- **UNDP's Information Management Organization**. The primary issue arising from the audit conclusions is that UNDP did not have the proper management structure to manage the information systems projects prior to 1998. The report, however, validates the reorganization that occurred late in 1997, as a result of UNDP 2001, indicating that "significant progress has been achieved in 1998 and 1999 to address the issues of coherent leadership and achieving the proper mix of internal and external resources". Therefore, UNDP had already drawn the right conclusions from its own analysis of the situation and taken sustainable corrective measures.

  On the individual systems projects, the audit report cites that these "were hosted by divisions without clear oversight over the subject matter". The audit recommends that "in the future, projects with long-term or overarching goals should be led by the office of the Administrator or another senior officer, to ensure organization-wide interest and support for the project". In this connection, UNDP created the Chief Information Officer (CIO) function with its headquarters reorganization.

- **Technical oversight capacity**. With the rapid changes in many fronts of information technology, no organization can rely on in-house capacity to keep up to date and absorb the relevant developments. As the report notes, this has led to the situation in UNDP whereby: "Many of the projects examined were marked by insufficient technical leadership. This resulted in UNDP business leaders agreeing to consultant recommendations without proper technical evaluation being performed." In this connection, UNDP, growing aware of this situation, began in 1998 the practice of retaining an independent external corporate adviser to assist with its information technology choices. UNDP draws heavily on the information technology adviser.

- **Procurement process**. The audit validates that UNDP observed the proper procedures by stating that "UNDP performed satisfactorily on this count. Vendors were chosen on the basis of a logical evaluation of reputation, relevant past experience and cost estimates" and "in each case, the replies from vendors were evaluated and scored according to a consistent, objective methodology that added substance to the submissions made to the UNDP Contract Committee. Each request for proposal (RFP) process resulted in a document (a proposal) upon which adherence to UNDP requirements could be measured". When the RFP process was not used, in the case of IMIS, the long-standing role of Price Waterhouse Coopers (PWC) in the United Nations IMIS development recommended their uncontested choice, which the audit does not fault.

In the case of the financial information management system (FIM), the choice of PWC without a wide internal and external search clearly appears erroneous in retrospect. UNDP has learned from that and has retained the Uruguay Center (the developer of FIM in the Latin America and the Caribbean region) as the FIM technical contractor since January 1998.

- **Balance between outsourcing and internal capacity**. In numerous instances, the audit report states that UNDP has favoured outsourcing rather than building and utilizing its internal capacity. UNDP agrees with that comment and is fully aware that the ever-increasing reliance on information systems, especially in a globally networked organization like UNDP, requires within its organizational structure an established information technology/systems operation. As mentioned earlier, UNDP has been moving in this direction as part of its reorganization under its change process. The organization continues to pursue this approach towards having such an operation, which would be well staffed with a good mix of skills and drawing on external resources as needed. In this connection, UNDP continues to seek the advice of its information technology adviser.

- **Overpayments**. The audit report clearly states that: "Fees paid to consultants correlate to contracted amounts."

- **Value for payments**. The audit report agrees that UNDP received due returns for its payments. As cited by the audit, "in IMIS, UNDP developed a fully customized enterprise resource package for a price that compares favourably with commercial packages that would likely require substantial customization or significant organizational restructuring". The audit also raises the issue of payments made to PWC, which were linked to billable hours rather than deliverables. This was mainly due to the fact that the nature of the work required by UNDP from PWC was related more to modifying a system that had already been designed for the United Nations Secretariat rather than delivering a complete system. However, this project was a special case, given Y2K deadlines, for which UNDP did learn and is already incorporating the lessons learned in its ongoing projects.

- **On the costs related to individual contractors for IMIS**. For the period 1996-1997, the total costs for individual contractors covering approximately 16 person years amounted to approximately $1.6 million. For 1998 the total costs covering 10 person years amounts to approximately $1.0 million.